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Message Text

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17
ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

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OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 DODE-00 PM-07 H-03 L-03 NSC-07 PA-04 PRS-01

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---------- 027110
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SUBJECT: SWEDEN OPTIMISTIC ABOUT 1974 ECONOMIC PROSPECTS

SUMMARY. EMBASSY DETECTS DEFINITE MOOD OF OPTIMISM AMONG BUSINESS AND GOVERNMENT LEADERS ABOUT 1974 ECONOMIC PROSPECTS AT END OF FIRST QUARTER. PIECES OF INFORMATION NOTED BELOW ON SUCH MATTERS AS MAN-POWER DEMAND, CONSUMER DEMAND, PRICE DEVELOPMENTS, AND STOCKMARKET TURNOVER ARE IN HAPPY CONTRAST TO SWEDISH EXPECTATIONS DURING PERIOD OF OIL SCARE. HOWEVER, GOVERNMENT REMAINS CAUTION-ING, , FOR EXAMPLE, IN CREDIT AREA, TO PRESERVE CURRENT FAVORABLE TREND IN ECONOMIC DEVELOPMENT. END SUMMARY.

1. UNEMPLOYMENT LOWER THAN PREDICTED. MANPOWER DEMAND HAS BEEN STRONGER IN FIRST THREE MONTHS THAN ANTICIPATED IN JANUARY FORECAST OF GOVERNMENT'S NATIONAL ECONOMIC RESEARCH INSTITUTE. INSTITUTE
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EXPECTED UNEMPLOYMENT TO RISE TO 2.7 PERCENT OF LABOR FORCE THIS

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YEAR, COMPARED TO 2.5 PERCENT LAST YEAR AND NUMBER OF UNEMPLOYED TO AVERAGE ROUGHLY 110,000 PERSONS. AT MID-POINT OF EACH OF FIRST THREE MONTHS, HOWEVER, NUMBER OF REGISTERED UNEMPLOYED HAS BEEN CONSIDERABLY LOWER THAN ON SAME DATE LAST YEAR. IN MID-MARCH, FOR EXAMPLE, NUMBER WAS 65,000 COMPARED TO 77,500 A YEAR AGO. LABOR MARKET BOARD ESTIMATES THAT FIRMS IN GOTEBORG, STOCKHOLM, AND MALMO AREAS HAVE IMMEDIATE NEED FOR OVER 6,000 WORKERS. AMONG FIRMS HAVING TROUBLE MEETING THEIR MANPOWER REQUIREMENTS ARE VOLVO AND SAAB-SCANIA, AS CAR SALES TURN UP. BOARD OFFICIAL, QUERIED BY EMBOFF, READILY AGREED THAT EMPLOYMENT OUTLOOK NOW IS DEFINITELY BETTER THAN INSTITUTE HAD PREDICTED.

2. CENTRAL BANK GOVERNOR WARNS AGAINST EXCESSIVE CONSUMER CREDIT AS FOREIGN CURRENCY HOLDINGS DECLINE. SHARP INCREASE IN CREDIT ADVANCES TO HOUSEHOLDS SINCE MID-1973 PLUS RECENT SPATE OF BANK ADVERTISE-MENTS ENCOURAGING CONSUMER BORROWING PROMPTED KRISTER WICKMAN, GOVERNOR OF CENTRAL BANK, TO TAKE OCCASION OF CONFERENCE OF SAV-INGS BANK ASSOCIATION MARCH 8 TO WARN BANKS AGAINST ALLOWING VOLUME OF CONSUMER CREDITS TO RISE TOO SHARPLY. SWEDEN'S LARGEST COMMERCIAL BANK RESPONDED THIS WEEK TO WICKMAN'S SIGNAL. LARS-ERIK THUNHOLM, MANAGING DIRECTOR OF SKANDINAVISKA ENSKILDA BANKEN (SE BANK), STOCKHOLM NEWSPAPERS REPORTED PROMINENTLY, NOTED TO MEETING OF HIS BANK BOARD MARCH 27 THAT BANKS MAY NEED TO TIGHTEN CREDIT EXTENSIONS IN VIEW OF POSSIBLE DEFICIT IN SWEDEN'S INTERNATIONAL PAYMENTS ACCOUNT THIS YEAR, EVEN THOUGH NEED STILL EXISTS TO STIMU-LATE DEMAND IN ORDER TO SUSTAIN PRODUCTION AND EMPLOYMENT. COM-MENTING ON THESE EVENTS TO EMBOFF, HEAD OF RESEARCH AT SE BANK CHARACTERIZED WICKMAN'S REMARKS AS APPLICATION OF MORAL SUASION; BANKER FORESAW CHANGE FROM EASY-MONEY POLICY OF PAST TWO YEARS. SHORTAGE OF LABOR IN CERTAIN AREAS AND SATISFACTORY RATE OF IN-DUSTRIAL INVESTMENT, HE OBSERVED, ALLOW CENTRAL BANK FREEDOM TO URGE BANKS TO EXERCISE CAUTION IN VOLUME OF LENDING TO CONSUMERS. CENTRAL BANK, HE SAID, HAS NOT ISSUED ANY TECHNICAL INSTRUCTIONS OR DETAILED ADVICE TO BANKS ON RATIONING NEW CREDIT EXTENSIONS. BANKER AGREED THAT CENTRAL BANK WANTS TO MAINTAIN SWEDEN'S LOW INTEREST-RATE STRUCTURE AS LONG AS AS IT CAN, PARTICULARLY IN ORDER TO KEEP DOWN COST OF HOUSING. (CENTRAL BANK RATE HAS REMAINED AT 5.0 PERCENT SINCE LATE 1971.)

3. SE BANK RESEARCH HEAD ALSO NOTED THAT CENTRAL BANK FOREIGN
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CURRENCY HOLDINGS STARTED DECLINING IN FEBRUARY AND HAVE CONTINUED TO DROP THROUGH MARCH. CENTRAL BANK DATA SHOW THAT FOREIGN CUR-RENCY HOLDINGS HAVE DECLINED FROM EQUIVALENT OF SKR 9.3 BILLION ON JANUARY 31 TO SKR 8.5 BILLION ON MARCH 22. FOREIGN CURRENCY RESRVES FELL BY OVER SKR 284 MILLION DURING WEEK OF MARCH 22, WHICH WAS BIG-GEST SINGLE WEEK'S DROP IN LONG TIME. CENTRAL BANK OFFICIAL TOLD EMBOFF THAT DECLINE HAS BEEN DUE TO HIGHER IMPORT COSTS OF OIL AND RAY MATERIALS AND TO NORMAL SEASONAL INCREASE IN IMPORTS.

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ALTHOUGH CENTRAL BANK WOULD NOT CONFIRM, EMBASSY GUESSES
THAT REDUCTION IN FOREIGN CURRENCY HOLDINGS WEEK OF MARCH 22 MAY
SUBSTANTIATE DAGENS NYHETER REPORT OF MARCH 28 THAT CENTRAL BANK
WAS FORCED TO INTERVENE IN SUPPORT OF SWEDISH KRONA IN RELATION
TO DEUTSCHEMARK.

4. CONSUMER BORROWING DOES NOT MEAN CONSUMER BOOM. BENGT
PETERSSON, ACTING DIRECTOR OF NATIONAL ECONOMIC RESEARCH INSTITUTE,
TOLD EMBOFF THAT INSTITUTE STILL HOLDS TO ITS FORECAST OF
4. PERCENT INCREASE IN CONSUMER DEMAND THIS YEAR. HE DID NOT KNOW
WHAT HOUSEHOLDS WERE DOING WITH CREDITS THEY HAVE RECEIVED, AND
SUGGESTED JOKINGLY THAT THEY MIGHT BE BUYING STOCKS. (STOCKHOLM
EXCHANGE HAD BIGGEST DAY ON RECORD MARCH 26 WHEN SHARES VALUED
AT SKR 21.86 MILLION TURNED OVER AND AVERAGE SHARE GAINED 8.77
POINTS; BIG DAY CAME DURING PERIOD OF PUBLICATION OF 1973 ANNUAL
COMPANY REPORTS WHICH GENERALLY SHOWED EXTRAORDINARILY PROFITABLE
YEAR.) IN HIS VIEW, THERE IS NO BOOM IN CONSUMER DEMAND AND ACTIV-
ITY THIS YEAR TO DATE WITH RESPECT TO CREDIT EXTENSIONS IS NOT
INCONSISTENT WITH PREDICTION OF 4-PERCENT INCREASE IN CONSUMER
DEMAND MADE BY INSTITUTE IN JANUARY.

5. SMALL RISE IN GENERAL PRICE LEVEL IN MARCH. ALTHOUGH
JANUARY SAW MARKED INCREASE IN GENERAL PRICE LEVEL, INCREASE IN
MARCH, AS IN FEBRUARY, WAS MODEST. IN JANUARY GENERAL
PRICE LEVEL ROSE ABOUT 3 PERCENT ABOVE LEVEL OF DECEMBER 1973
(0.9 PERCENT INCREASE IN GENERAL PRICES, EXCLUDING GASOLINE AND
OIL; 1.5 PERCENT INCREASE IN PRICE OF GASOLINE AND OIL; 0.2 PERCENT
INCREASE
IN SERVICES; 0.3-0.4 PERCENT INCREASE IN RENTS AND OTHER
HOUSING CHARGES). IN FEBRUARY, HOWEVER, GENERAL PRICE LEVEL
OF GOODS AND SERVICES ROSE ONLY 0.7 PERCENT, CEILING PRICES
HAVING BEEN SET FOR GASOLINE AND OIL AND BASIC RENTS
HAVING BEEN FROZEN. SOURCE IN PRICE AND CARTEL BOARD INFORMED
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EMBOFF THAT BOARD CALCULATED 0.6 PERCENT AS RISE IN GENERAL PRICE
LEVEL FOR FIRST THREE WEEKS OF MARCH, BUT
THAT FIGURE IS PRELIMINARY AND POSSIBLE UNRELIABLE.

6. HE SAID BOARD STANDS BY ITS PREDICTION THAT PRICE RISE
WILL BE ABOUT 8.3 PERCENT THIS YEAR, IN CONTRAST TO PREDICTION
OF 10.6 PERCENT MADE IN JANUARY BY NATIONAL ECONOMIC RESEARCH
INSTITUTE. HE ADMITTED THAT INCREASE N PRICES OF RAW
MATERIALS HAS NOT YET BEEN FULLY PASSED ON TO CONSUMER BUT
NOTED THAT THIS PROCESS TAKES VARYING AMOUNTS OF TIME -- IN
CASE OF TEXTILES, FOR EXAMPLE, A YEAR OR MORE. HE NOTED THAT PRICE
OF RAW MATERIALS IS OFTEN A SMALL PART OF COST OF PROCESSED
GOODS; OIL, FOR INSTANCE, HAS BEEN CALCULATED ON THE AVERAGE ONLY
TO 1.5 - 2.0 PERCENT OF COST OF INDUSTRIAL PRODUCTS.
OLSEN

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